AR16

I.T.L. INDUSTRIES LIMITED
ANNUAL REPORT
1978

CORPORATE INFORMATION

DIRECTORS

C.A. Bell, Q.C. Windsor, Ontario	Senior Partner Bell & MacEachern, Barristers & Solicitors
Robert E. Deane Windsor, Ontario	President and Chief Executive Officer I.T.L. Industries Limited
Peter Hedgewick Windsor, Ontario	Chairman of the Board I.T.L. Industries Limited
Robert D. Hill Birmingham, Michigan	Independent Financial Consultant
C.W. Leonardi, C.A. Mississauga, Ontario	Executive Vice-President Finance Jannock Limited
A.W. McCrindle, P. Eng. Windsor, Ontario	President McCrindle Steel Industries Ltd.
G. Wallace Wood Don Mills, Ontario	Executive Assistant to the President Jannock Limited

OFFICERS

Peter Hedgewick	Chairman of the Board
Robert E. Deane	President and Chief Executive Officer
C.A. Bell, Q.C.	Secretary
J. Robert Ohrling, C.A.	Treasurer and Corporate Controller

AUDITORS

Ernst & Ernst, London, Ontario

STOCK LISTING

The Toronto Stock Exchange

TRANSFER AGENT AND REGISTRAR

National Trust Company Limited, Toronto, Ontario

I.T.L. GROUP OF COMPANIES

I.T.L. Industries Limited
3805 Malden Rd.
P.O. Box 7068
Windsor, Ontario N9C 3Y8

International Tools (1973) Limited
3805 Malden Rd.
P.O. Box 7068
Windsor, Ontario N9C 3Y8

Reflex Division
3805 Malden Rd.
P.O. Box 7068
Windsor, Ontario N9C 3Y8

I.T.L. Industries, Inc.
Mid-Ohio Industrial Park
Hebron, Ohio
P.O. Box 877
Newark, Ohio 43055

Ray-O-Lite Division
P.O. Box 877
Newark, Ohio 43055

Wheatley Manufacturing Division
2590 Ouellette Avenue
P.O. Box 366
Windsor, Ontario N9A 6L8

Wheatley Manufacturing Division
1237 Kamato Road
Mississauga, Ontario L4W 2M2

Wheatley Die Supply
5804 Industrial Blvd.
Montreal North, Quebec H1G 3J2

Wheatley Economy Die Sets
23751 Dequindre
Hazel Park, Michigan 48030

REPORT TO THE SHAREHOLDERS

Sales for the year ended November 30, 1978 were $22,924,000 as compared to $19,434,000 for the prior year. The net earnings before income tax and extraordinary items increased to $2,154,000 from $1,311,000 in the prior year. Working capital as at November 30, 1978 was $2,674,000 as compared to $718,000 as at November 30, 1977.

We look forward to continuing this performance trend into the future with specific emphasis being placed on continuing the program of re-building the working capital position.

The Board of Directors wish to thank the employees of the Company for their services and efforts during the recent period. It is through their combined efforts that the operations of the Company are in a profitable position.

TOOLS DIVISION

The market for plastic molds continues to be favourable. Order input and shipments of finished molds are continuing at a high level.

Also evidenced is a trend toward larger size molds. This will be favourable for ITL in that the expertise of your Company is in this large size mold.

WHEATLEY DIVISION

As a result of the down sizing of the automobile, the die set industry remains active.

The introduction of the hydraulic press line has been very successful.

Within the next few years, this product line will provide revenue equal to the die set business.

REFLEX DIVISION

The Reflex Division has been the division which has shown the greatest improvement during the year.

The operating management in the division has been changed. A greater emphasis has been placed in the automotive market.

Major new automotive programs have been added to the operation during the past six months and major additional programs have been received for the future.

ITL INDUSTRIES, INC.

The Newark operation improved substantially during the year.

Major new customers have more than doubled the sales of prescriptionware vials.

A snap cap product line has been added to complement safety closures.

A glass prescriptionware product line has been added to complement the plastic line, thereby providing ITL with a complete prescriptionware product line.

In the road marker segment of the business, a delineator product line has been added to complement the road markers to complete the product line.

OVERVIEW OF OPERATIONS

Your Company is entering a period of substantial growth.

This will result in a continuity of the improved financial performance of the operation.

On behalf of the Board of Directors

Robert E. Deane

Robert E. Deane
President & Chief Executive Officer

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS
I.T.L. INDUSTRIES LIMITED AND SUBSIDIARIES

	Year ended November 30 1978	1977
Sales — Note 9	**$ 22,923,885**	$ 19,434,223
Cost of sales, selling, general and administrative expenses	**19,249,584**	16,659,624
Depreciation	**749,028**	734,082
	19,998,612	17,393,706
EARNINGS FROM OPERATIONS	**2,925,273**	2,040,517
Interest		
Long-term debt	**375,853**	404,928
Short-term debt	**364,657**	299,308
Amortization of financing costs and patents	**31,187**	24,990
	771,697	729,226
EARNINGS BEFORE INCOME TAXES AND EXTRAORDINARY ITEMS	**2,153,576**	1,311,291
Provision for income taxes including deferred income taxes (1978 — $226,000, 1977 — $28,000)	**903,000**	575,000
EARNINGS BEFORE EXTRAORDINARY ITEMS	**1,250,576**	736,291
Extraordinary items — Note 10	**579,604**	1,074,090
NET EARNINGS	**1,830,180**	1,810,381
Deficit — beginning of year	**(1,992,866)**	(3,803,247)
Additional paid-in capital transferred to retained earnings since it principally represents government assistance grants received in previous years for equipment essentially depreciated	**193,034**	— 0 —
RETAINED EARNINGS (DEFICIT) — END OF YEAR	**$ 30,348**	$ (1,992,866)
Earnings per share based on weighted average and after deduction for unpaid preference share dividends		
Before extraordinary items	**$ .69**	$ .37
After extraordinary items	**$ 1.05**	$ 1.04

See notes to consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
I.T.L. INDUSTRIES LIMITED AND SUBSIDIARIES

	Year ended November 30 1978	1977
SOURCE OF WORKING CAPITAL		
Earnings before extraordinary items	$ **1,250,576**	$ 736,291
Items not affecting working capital		
Depreciation	**749,028**	734,082
Amortization	**31,187**	24,990
Deferred income taxes	**226,000**	28,000
Gain on disposal of fixed assets	**(12,383)**	(16,623)
FROM OPERATIONS	**2,244,408**	1,506,740
Proceeds on disposal of fixed assets	**15,269**	617,376
Income less expenses applicable to discontinuation and reduction of operations	**— 0 —**	244,347
Recovery of income taxes	**646,900**	698,000
Income taxes applicable to expenses of discontinued operations	**29,400**	— 0 —
	2,935,977	3,066,463
USE OF WORKING CAPITAL		
Additions to fixed assets	**661,611**	465,299
Reduction of long-term debt	**270,423**	400,191
Income taxes applicable to extraordinary items	**— 0 —**	176,000
Additions to patents	**13,599**	— 0 —
Net expense of discontinued operations	**34,050**	— 0 —
	979,683	1,041,490
INCREASE IN WORKING CAPITAL	**1,956,294**	2,024,973
WORKING CAPITAL (DEFICIENCY) — BEGINNING OF YEAR	**717,812**	(1,307,161)
WORKING CAPITAL — END OF YEAR	$ **2,674,106**	$ 717,812

See notes to consolidated financial statements

CONSOLIDATED BALANCE SHEET
I.T.L. INDUSTRIES LIMITED AND SUBSIDIARIES

	November 30 1978	November 30 1977
ASSETS		
CURRENT ASSETS		
Cash and short-term deposit	**$ 209,332**	$ 511,561
Accounts receivable — Note 5	**6,580,240**	4,660,187
Inventories — Note 1	**3,826,919**	3,520,506
Prepaid expenses and other assets	**168,610**	143,105
TOTAL CURRENT ASSETS	**10,785,101**	8,835,359
FIXED ASSETS — Note 2		
At cost	**13,348,982**	12,631,536
Less allowances for depreciation	**7,911,423**	7,136,558
	5,437,559	5,494,978
OTHER ASSETS — Note 3		
At cost less allowances for depreciation of $205,260 (1977 — $196,379)	**844,237**	911,767
INTANGIBLES — Note 4	**1,531,015**	1,548,603
	$ 18,597,912	$ 16,790,707

See notes to consolidated financial statements

APPROVED ON BEHALF OF THE BOARD

Robert E. Deane Director

Charles A. Bell Director

	November 30 1978	1977
LIABILITIES		
CURRENT LIABILITIES		
Bank advances — Note 5	**$ 3,669,794**	$ 3,147,313
Demand notes payable to debentureholders	**— 0 —**	500,000
Accounts payable and accrued liabilities	**3,863,218**	3,440,570
Accrued interest	**34,912**	255,485
Income tax payable	**17,860**	33,969
Current instalments of long-term debt — Note 6	**525,211**	740,210
TOTAL CURRENT LIABILITIES	**8,110,995**	8,117,547
LONG-TERM DEBT — Note 6	**4,547,569**	4,817,992
DEFERRED INCOME TAXES — Note 7	**573,000**	319,000
SHAREHOLDERS' EQUITY		
SHARE CAPITAL — Note 8		
Issued and fully paid		
44,000 6-1/2% Preference Shares, Series A	**1,100,000**	1,100,000
43,400 6-1/2% Preference Shares, Series B	**1,085,000**	1,095,000
1,609,836 Common Shares	**3,151,000**	3,141,000
	5,336,000	5,336,000
ADDITIONAL PAID-IN CAPITAL	**— 0 —**	193,034
RETAINED EARNINGS (DEFICIT)	**30,348**	(1,992,866)
	5,366,348	3,536,168
	$ 18,597,912	$ 16,790,707

AUDITOR'S REPORT TO THE SHAREHOLDERS

I.T.L. Industries Limited and Subsidiaries

We have examined the consolidated balance sheet of I.T.L. Industries Limited and subsidiaries as at November 30, 1978 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at November 30, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Ernst & Ernst

Chartered Accountants

London, Ontario
February 1, 1979

STATEMENT OF ACCOUNTING POLICIES

Principles of Consolidation: The consolidated financial statements include the accounts of the company and its wholly-owned subsidiaries, I.T.L. Industries, Inc. and Wheatley Manufacturing Limited and its subsidiaries. Intercompany transactions and the year-end account balances have been eliminated on consolidation.

Receivables: Receivables are shown net of allowance for doubtful accounts.

Inventories: Inventories, other than tooling jobs-in-process, are stated at the lower of cost and net realizable value. Cost is determined principally at standard which approximates first-in, first-out cost.

Tooling jobs-in-process are stated at the lower of accumulated contract costs and proportional contract net realizable values.

Fixed Assets: Fixed assets are carried at cost. Depreciation and amortization, which are based on management's estimate of the useful life of the assets, are calculated on a straight-line basis. Profits and losses on the sale of fixed assets are charged to operations unless of an extraordinary nature.

Intangibles: Excess of cost of investment in subsidiaries over book value of net assets acquired is recorded as an intangible asset. It has not been amortized as management believes it has a continuing value. However, any goodwill relating to acquisitions after March 31, 1974 will be amortized in accordance with generally accepted accounting principles.

Deferred financing and other similar costs are amortized over the period of the obligation in proportion to the amount of debt outstanding. Patents are amortized over the life of the respective patent.

Deferred Income Taxes: Deferred income taxes are included in the statements for differences between the income and expenses reflected in the statements and the amounts included in the computation of income for tax purposes for the current year, provided that such difference will be included in the computation of income for tax purposes in future periods.

Deferred income taxes are set up at the tax rate of the year and are drawn down at the average rate of accumulation.

Translation of Foreign Currencies: Translation of accounts in foreign currencies has been made as follows:

(a) Current assets and current liabilities — at the rate of exchange at the balance-sheet date;

(b) Other balance sheet accounts and depreciation expense — at the rate of exchange prevailing at the time of acquisition;

(c) All items, excluding depreciation, on the statement of earnings — at the average rate of exchange for the year.

Revenue Recognition: Generally revenue is recognized in the accounts at the time the product is shipped and billed to the customer. With respect to contract tooling, revenue is recognized when the original contract is complete and the amount billed to the customer.

NOTE 1 — INVENTORIES

	1978	1977
Finished goods	$ 1,357,259	$ 1,296,187
Work-in-process	1,829,409	1,803,032
Raw materials	640,251	421,287
	$ 3,826,919	$ 3,520,506

See Note 5 with respect to bank loan security.

NOTE 2 — FIXED ASSETS

	1978		Depreciation	1977	
	Cost	Net	Rates - %	Cost	Net
Land	$ 171,364	$ 171,364		$ 171,364	$ 171,364
Buildings	2,893,237	2,114,330	2-1/2	2,884,166	2,177,456
Machinery & equipment	8,497,869	2,705,243	7-1/2 — 10	7,913,843	2,641,699
Tool & dies	1,786,512	446,622	33-1/3	1,662,163	504,459
	$ 13,348,982	$ 5,437,559		$ 12,631,536	$ 5,494,978

Insured value as at November 30, 1978 is $20,353,000 (1977 — $16,400,000).

Note 6 describes the extent to which fixed assets are provided as security under the debenture agreement.

NOTE 3 — OTHER ASSETS

The net book value of the Amherstburg facility of the Reflex Division of International Tools (1973) Limited is reclassified as other assets, since the facility has been substantially rented in early December, 1978. The carrying value approximates net realizable value. The insured value at November 30, 1978 is $1,716,000 (1977 — $1,600,000). Note 7 describes the extent to which this facility is provided as security under the A.A.B. loan agreement.

NOTE 4 — INTANGIBLES

	1978	1977
Deferred financing and organization costs	$ 262,544	$ 281,730
Patents	101,366	99,768
Excess of cost of investment in subsidiaries over book value of net assets acquired	1,167,105	1,167,105
	$ 1,531,015	$ 1,548,603

NOTE 5 — BANK INDEBTEDNESS

Bank advances include bank loans (1978 — $3,397,000; 1977 — $2,779,000) secured by inventories and a general assignment of book debts.

NOTE 6 — LONG-TERM DEBT

	1978	1977
6.20% Secured Sinking Fund Debentures, Series A, maturing June 15, 1978	$ — 0 —	$ 149,672
6-1/2% Secured Sinking Fund Debentures, Series B, maturing December 15, 1979	11,502	101,502
8-1/2% Secured Sinking Fund Debentures, Series C, maturing June 15, 1980	142,708	442,708
8% Convertible Sinking Fund Debentures, 1969 Series, maturing October 1, 1988 (Note 8)	3,000,000	3,000,000
8-7/16% Adjustment Assistance Board (A.A.B.) loan, repayable monthly, maturing April 15, 1984	1,107,500	1,107,500
10% first mortgage, (U.S. $381,847) repayable $4,315 (U.S. funds) principal and interest monthly, maturing April 1, 1992	384,249	390,567
Lien notes, (U.S. $191,079) at U.S. prime rate plus 1% repayable $10,617 (U.S. funds) principal monthly, maturing 1980	214,362	312,616
13% promissory note, repayable $2,275 principal and interest monthly, maturing December 21, 1983	100,000	— 0 —
13% conditional sales contract, repayable $4,157 principal monthly, maturing July 5, 1980	83,135	— 0 —
Other long-term debt, (U.S. $25,348) maturing 1980	29,324	53,637
	5,072,780	5,558,202
Less sinking fund and principal payments due within one year	525,211	740,210
	$ 4,547,569	$ 4,817,992

The debentures are secured by a fixed charge on the fixed assets of Wheatley Manufacturing Limited and a floating charge on the assets of I.T.L. Industries Limited and all subsidiary companies subject to prior charges of the bank (Note 5), of the A.A.B. loan on assets of the Reflex Division of International Tools (1973) Limited and of the holders of other long-term debt secured by certain fixed assets of subsidiary companies. The A.A.B. loan is also guaranteed by I.T.L. Industries Limited.

The terms of the A.A.B. loan agreement with the Department of Industry, Trade and Commerce of the Government of Canada, among other things, require:

(a) repayment of principal by monthly instalments commencing December 15, 1978;

(b) an annual accelerated payment not in excess of $200,000 against the principal balance where the consolidated source of funds arising from operations, as set out in the accompanying Consolidated Statement of Changes in Financial Position exceed $3,000,000 per annum;

(c) an increase in the rate of interest to 10-5/8% on the principal outstanding after June 15, 1980.

Payments of principal and interest thereon required in the next five years to meet long-term debt instalments and sinking fund provisions are:

	Principal	Interest
1979	$ 525,211	$ 413,367
1980	541,129	368,118
1981	402,833	335,873
1982	407,338	296,424
1983	412,405	256,406

NOTE 7 — INCOME TAXES

The company's U.S. subsidiary has losses for tax purposes at November 30, 1978 of approximately $2,787,000 (1977 — $3,119,000) which are available to be applied against taxable income of future years. These losses, stated in U.S. dollars, expire as follows:

1979	$ 96,000
1980	1,037,000
1981	— 0 —
1982	— 0 —
1983	1,654,000
	$ 2,787,000

No recognition has been given in these financial statements to future tax benefits that may result from the above losses.

A Canadian subsidiary company has an unrecorded deferred income-tax liability of approximately $122,000 (1977 — $150,000); the liability arose from timing differences between accounting and tax depreciation that occurred prior to 1968. The draw-down of $28,000 in 1978 from the unrecorded liability has been treated as an extraordinary item.

NOTE 8 — SHARE CAPITAL

(a) Authorized:

157,400 Preference Shares with a par value of $25 each, issuable in series.

3,058,080 Common Shares without par value.

(b) Issued and fully paid:

Series A:

44,000 6-1/2% Cumulative Redeemable Preference Shares, Series A (Series A Preference Shares) redeemable at their par value of $25 each. The rights attached to the Series A Preference Shares require the company to provide a reserve for the purchase of these shares for cancellation. The balance of the purchase reserve at November 30, 1978 was the maximum required amount of $100,000.

Series B:

43,400 6-1/2% Cumulative Redeemable Convertible Preference Shares, Series B (Series B Preference Shares) redeemable at their par value of $25 each. Series B Preference Shares were convertible into Common Shares on or before June 1, 1978.

During the year ended November 30, 1978, 400 Series B Preference Shares were converted into 500 Common Shares at a stated value of $10,000.

Dividend arrears on the Series A and Series B Preference Shares amount to $1,029,135 at November 30, 1978 (1977 — $891,170).

Common Shares:

1,609,836 Common Shares.

Under the terms of the issue of the 8% Convertible Sinking Fund Debentures, 1969 Series, each $1,000 debenture is convertible into 40 Common Shares on or before October 1, 1979, decreasing annually to 33 Common Shares on or before October 1, 1984.

120,000 of the unissued Common Shares are reserved against conversions of the Convertible Sinking Fund Debentures, 1969 Series, outstanding at November 30, 1978.

During the year ended November 30, 1978, 500 Common Shares were issued on the conversion of 400 Series B Preference Shares.

NOTE 9 — STATUTORY REQUIREMENTS

(a) Aggregate remuneration of Directors and Senior Officers as defined by The Ontario Business Corporations Act was $291,049 in 1978 and $239,871 in 1977.

Senior Officers include the five highest paid employees of the Corporation as required by The Business Corporations Act (Ontario).

(b) Sales by class of business were as follows:

	1978	1977
Contract tools	$ 9,266,865	$ 7,774,468
Standard tools and dies	5,867,449	5,289,878
Contract plastic molded products — automotive	2,133,507	1,475,215
Proprietary plastic molded products	5,656,064	4,894,662
	$ 22,923,885	$ 19,434,223

NOTE 10 — EXTRAORDINARY ITEMS

	1978			1977
	Pre-Tax	Applicable Income Tax	Net	Net
Income (loss) applicable to discontinuation and reduction of operations	$ (68,696)	$ 29,400	$ (39,296)	$ 141,347
Gain on sale of fixed assets	— 0 —	— 0 —	— 0 —	234,743
	$ (68,696)	$ 29,400	(39,296)	376,090
Drawdown of unrecorded deferred income taxes (Note 7)			(28,000)	— 0 —
Recovery of income taxes arising principally from losses carried forward			646,900	698,000
TOTAL EXTRAORDINARY ITEMS			$ 579,604	$1,074,090

NOTE 11 — LEGAL MATTERS

(a) A subsidiary is defendent, together with four co-defendants, in an action where the plaintiff alleges damages of $1,345,000 resulting from the premature cracking of a die supplied by the subsidiary. Management denies all liability under the claim, submitting that the die was completely tested and accepted by the plaintiff's agent, and that the damage to the die was caused after acceptance. Legal counsel is unable to express an opinion on the outcome of the matter but contends that it is a very remote possibility for the subsidiary to sustain liability from the claim because:

(1) the company does have several valid defenses;

(2) the company has a counterclaim for unpaid repair services of $65,000;

(3) there may be partial or total insurance coverage;

(4) there are other co-defendants to the action.

(b) The U.S. Customs Service has demanded $175,000, principally in penalties against a subsidiary, its customer and its custom broker, for an alleged violation of the U.S. customs laws. Legal counsel has submitted a petition on behalf of the subsidiary company but is unable to advise on the outcome of this matter. Legal counsel suggests that the liability, if any, to the parties in the transaction will be substantially less than the proposed penalty.

(c) Subsidiary companies have brought the following actions which are in the pretrial stage:

(1) against former employees, alleging breach of contract of employment and fiduciary duty. The company is attempting to recover loss of profit and general damages;

(2) against a United States manufacturer for patent infringement.

NOTE 12 — APPROVAL BY MANAGEMENT

The Audit Committee of the Board of Directors approved these consolidated financial statements on February 1, 1979.